

CITY OF MITCHELLVILLE, IOWA

Independent Auditors' Report
Basic Financial Statements and
Supplemental Information and Findings

June 30, 2006

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City of Mitchellville, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Wieslander	Mayor	December, 2007
Jon Woods	Mayor Pro Tem	December, 2007
Peggy Olson	Council Member	December, 2007
James Scott	Council Member	December, 2007
Sara Chambers	Council Member	December, 2009
Dean McGhee	Council Member	December, 2009
Andrew Lent	City Clerk	June, 2006
Jeffrey Horne	City Administrator	Indefinite
Mildred Cunningham	City Clerk	Indefinite
Amy Beattie	City Attorney	Indefinite
Timothy Brandt	Director Public Works	Indefinite

POLLARD AND COMPANY P.C.
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IOWA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Mitchellville

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mitchellville, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Mitchellville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Mitchellville as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports as dated below on our consideration of the City of Mitchellville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Mitchellville's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2005 and 2004 (none of which is presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

February 16, 2007

Pollard and Company P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Mitchellville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

FY 2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased by \$115,129 from FY 2005 to FY 2006.
- The general government disbursements increased \$129,133 from FY 2005 to FY 2006.
- The City's total cash basis net assets for FY 2006 were \$1,514,072. Of this amount, the assets of the governmental activities were \$728,701 and the assets of the business type activities were \$785,371.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The major governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Employee Benefits and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	June 30, 2006	June 30, 2005
Program receipts:		
Charges for service	\$128,658	\$139,969
Operating grants, contributions and restricted interest	\$214,151	\$180,094
Capital grants, contributions and restricted interest	\$0	\$0
General receipts:		
Property tax		
for general purpose	\$428,096	\$417,973
for debt service	\$71,733	\$74,397
Unrestricted investment earnings	\$16,155	\$8,615
Miscellaneous	\$62,197	\$21,482
Transfers - net	\$8,523	(\$28,146)
Total receipts and transfers	\$929,513	\$814,384
Disbursements:		
Public safety	\$304,815	\$268,519
Public works	\$274,089	\$224,577
Culture and recreation	\$119,843	\$120,433
Community and economic development	\$5,863	\$5,857
General government	\$92,408	\$90,115
Debt service	\$71,208	\$73,702
Capital Project	\$44,110	\$0
Transfers	\$0	\$0
Total disbursements	\$912,336	\$783,203
 Increase in cash basis net assets	 \$17,178	 \$31,181
Cash basis net assets beginning of year	\$711,523	\$680,342
Cash basis net assets end of year	\$728,701	\$711,523

The City's total receipts for governmental activities were \$929,513 and the total disbursements of all programs and services were \$912,336. The cash-basis net assets were \$728,701, which was an increase of \$17,178 from the previous year.

Changes in Cash Basis Net Assets of Business Type Activities

	June 30, 2006	June 30, 2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$316,805	\$207,361
Sewer	\$272,772	\$202,253
Capital grants, contributions and restricted interest	\$31,989	\$13,800
General receipts:		
Unrestricted interest on investments	\$0	\$0
Bond proceeds	\$2,800,895	\$1,031,332
Miscellaneous	\$5,948	\$134,105
Transfers -net	-\$8,523	-\$10,000
Total receipts	\$3,419,886	\$1,578,851
Disbursements and transfers:		
Water	\$2,757,790	\$417,314
Sewer	\$426,618	\$1,363,677
Total disbursements and transfers	\$3,184,408	\$1,780,991
 Increase (decrease) in cash balance	 \$235,478	 -\$202,140
Cash basis net assets beginning of year	\$549,893	\$752,033
Cash basis net assets end of year	\$785,371	\$549,893

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As The City of Mitchellville completed the year, its governmental funds reported a combined fund balance of \$728,701, an increase of \$17,178 from last year's total of \$711,523.

- The General Fund cash balance had an increase in revenues, but it also had an increase in spending.
- The Road Use Tax Fund cash balance had an increase of \$20,620 from \$275,504 to \$296,124 during the fiscal year. The City intends to use this money to maintain or upgrade the condition of all City roads.
- In the Urban Service Area Fund and Library Renovation Fund, there is a deficit of \$44,110. The deficit will be eliminated when the City receives funding from Polk County and The Mitchellville Library Foundation.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$116,220 to \$569,892, due primarily to control spending and the effect of the rate increase during the previous year.
- The Sewer Fund cash balance decreased by \$168,816 due to remaining construction needed on the wastewater treatment facility and the closing of the Sewer Capital Project Fund.
- At the end of FY 2006, there was a negative balance of \$162,984 in the capital project fund for water. The reason for this is that some of the expenses involved in the water treatment project were paid before SRF funds were drawn on the project. This negative balance will decrease once all remaining SRF project funds are drawn down.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment as approved on December 19, 2005 and resulted in an increase in operating disbursements related additional cost of approximately \$461,500 the water and sewer capital improvement projects. The second amendment was approved on April 17, 2006 to provide for additional disbursements in certain City departments. The City had sufficient cash balance to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$3,979,404 in bonds and other long-term debt. The reason for the increase is the SRF funding for the water treatment improvement project. The sewer improvement and water treatment improvement project will be paid from the sewer and water revenues.

Outstanding Debt at Year-End

	June 30, 2005	June 30, 2006
General obligation capital loan notes	\$230,003	\$572,227
Lease purchase agreement	\$32,328	\$22,177
Revenue Loan Notes	\$1,031,332	\$3,385,000
Total	\$1,293,663	\$3,979,404

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$572,227 is significantly below its constitutional debt limit of \$3,223,307.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Mitchellville has elected and appointed officials and department heads considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

In April 2006, the City passed another resolution authorizing \$1,050,000 in water revenue loan note under the State Revolving Loan Fund. This would make a total \$3,350,000 in revenue loan notes under the State Revolving Loan Fund for the water treatment plant. The City is planning to pay back this SRF Loan from the water funds. The water rates were increase to help with the repayment.

During the FY 05/06, the City Council authorized two capital project funds. One of the capital projects is for the Library Renovation Project. General Obligation Bond Money, Donations Money, and Polk County Grant Money will be paying for the Library Renovation Project.

In August 2006, the City of Mitchellville passed a resolution authorizing \$255,000 General Obligation Bond for the renovation of the Mitchellville Public Library.

There was an agreement signed between the City of Mitchellville and Polk County for an Urban Service Area. This agreement is for a sewer line that was installed for 7th Street. Seventh Street will be installed sometime in the future. Polk County has paid for installing the sewer line and other fees. The City of Mitchellville will reimburse Polk County from connection fees and a portion of the sewer bills that are collected in this area.

In July 2006, the City of Mitchellville, Polk County, and Jasper County entered into a 28E agreement to improve roads within the City and adjoining Jasper County. The cost of the project was \$266,805. The City will repay Polk County \$53,361 a year for the next five years. The funds for repayment will come from the Road Use Fund. This 28E agreement will be paid off in the year 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mildred Cunningham, City Clerk, 110 2nd Street NE, Mitchellville, Iowa.

City of Mitchellville, Iowa
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Operating Grants, Contributions, and Restricted Interest
Governmental Activities			Capital Grants, Contributions and Restricted Interest
Public safety	\$ 304,815	\$ 40,619	\$ 17,160
Public works	274,089	71,116	181,487
Culture and recreation	120,699	1,795	13,555
Community and economic development	5,863	300	-
General government	92,408	14,828	1,949
Debt service	71,208	-	-
Capital Projects	43,254	-	-
Total governmental activities	912,336	128,658	214,151
Business type activities			
Water	2,757,790	316,805	-
Sewer	426,618	272,772	-
Total business type activities	3,184,408	589,577	-
Total	\$ 4,096,744	\$ 718,235	\$ 214,151

General Receipts

Property tax levied for

General purposes

Debt service

Unrestricted interest on investments

Bond proceeds

Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted (deficit)

Streets

Capital project

Debt service

Employee benefits

Other purposes

Unrestricted

Total cash basis net assets

There were no reconciling items between the Governmental and Proprietary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.

Exhibit A

Governmental Activities		Business Type Activities	Total
\$	(247,036)	\$ -	\$ (247,036)
	(21,487)	-	(21,487)
	(105,349)	-	(105,349)
	(5,563)	-	(5,563)
	(75,631)	-	(75,631)
	(71,208)	-	(71,208)
	(43,254)		(43,254)
	(569,527)	-	(569,527)
	-	(2,430,304)	(2,430,304)
	-	(132,538)	(132,538)
	-	(2,562,842)	(2,562,842)
\$	(569,527)	\$ (2,562,842)	\$ (3,132,370)
	428,096	-	428,096
	71,733		71,733
	16,155	-	16,155
	-	2,800,895	2,800,895
	62,197	5,948	68,145
	8,523	(8,523)	
	586,705	2,798,320	3,385,024
	17,178	235,478	252,656
	711,523	549,893	1,261,416
\$	728,701	\$ 785,371	\$ 1,514,072
\$	296,124	\$ -	\$ 296,124
	(44,110)	(162,984)	(207,094)
	28,094	112,128	140,222
	26,757	-	26,757
	74,645	-	74,645
	347,191	836,227	1,183,418
\$	728,701	\$ 785,371	\$ 1,514,072

City of Mitchellville, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts			
Property Taxes	\$ 334,038	\$ -	\$ 83,390
Licenses and Permits	14,828	-	-
Use of Money and Property	8,339	5,241	-
Intergovernmental	32,665	181,487	-
Charges for Services	113,830	-	-
Miscellaneous	54,854	-	6,742
Total Receipts	558,554	186,728	90,132
Disbursements			
Operating			
Public Safety	270,640	-	34,175
Public Works	71,670	140,868	18,336
Culture and Recreation	107,317	-	12,526
Community and Economic Development	5,863	-	-
General Government	86,395	-	6,013
Debt Service	-	-	-
Capital Projects			
Total Disbursements	541,885	140,868	71,050
Excess (deficiency) of receipts over (under) disbursements	16,669	45,860	19,082
Other financing sources (uses)			
Interfund loan repayment	(1,500)	-	-
Operating transfers in	16,527	-	-
Operating transfers out	-	(25,240)	-
Total other financing sources (uses)	15,027	(25,240)	-
Net change in cash balances	31,697	20,620	19,082
Cash balance - beginning of year	315,494	275,504	7,675
Cash balance - end of year	\$ 347,191	\$ 296,124	\$ 26,757
Cash basis fund balances (deficit)			
Reserved			
Debt service	\$ -	\$ -	\$ -
Employee Benefits	-	-	26,757
Unreserved			
General fund	347,191	-	-
Special revenue funds	-	296,124	-
Capital project funds	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 347,191	\$ 296,124	\$ 26,757

The accompanying notes to financial statements are an integral part of this statement.

		Other Nonmajor Governmental			
Debt Service		Funds		Total	
\$	71,733	\$	10,668	\$	499,829
	-		-		14,828
	-		2,575		16,155
	-		-		214,152
	-		-		113,830
	-		600		62,197
	71,733		13,843		920,991
					304,815
			43,215		274,089
			856		120,699
			-		5,863
					92,408
	71,208				71,208
			43,254		43,254
	71,208		87,325		912,336
	525		(73,482)		8,655
	-		-		(1,500)
	-		30,000		46,527
	-		(11,264)		(36,504)
	-		18,736		8,523
	525		(54,745)		17,178
	27,569		85,281		711,523
\$	28,094	\$	30,536	\$	728,701
\$	28,094	\$	-	\$	28,094
	-		-		26,757
	-		-		347,191
	-		42,538		338,662
	-		(44,110)		(44,110)
	-		32,108		32,108
\$	28,094	\$	30,536	\$	728,701

City of Mitchellville, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2006

	Sewer	Sewer Capital Project	Water	Water Capital Projects	Total
Operating receipts					
Use of money and property	\$ 17,481	\$ 3,827	\$ 10,681	\$ -	\$ 31,989
Charges for service	272,772	-	316,805	-	589,577
Miscellaneous	-	347	5,601	-	5,948
Total operating receipts	290,253	4,174	333,087	-	627,514
Operating disbursements					
Business-type activities	265,948	-	189,412	-	455,360
Total operating disbursements	265,948	-	189,412	-	455,360
Excess of operating receipts over operating disbursements	24,305	4,174	143,675	-	172,154
Non-operating receipts (disbursements)					
Capital projects	-	(78,199)	-	(2,544,446)	(2,622,645)
Revenue bond proceeds	-	168,668	-	2,632,227	2,800,895
Interfund loan repayment	-	-	1,500	-	1,500
Debt service	(82,471)	-	(23,932)	-	(106,403)
Total non-operating receipts (disbursements)	(82,471)	90,469	(22,432)	87,781	73,347
Excess (deficiency) of receipts over (under) disbursements	(58,166)	94,643	121,243	87,781	245,501
Operating transfers in	-	105,650	-	-	105,650
Operating transfers out	(110,650)	-	(5,023)	-	(115,673)
Net change in cash balances	(168,816)	200,293	116,220	87,781	235,478
Cash balances - beginning of year	547,279	(200,293)	453,672	(250,765)	549,893
Cash balances - end of year	\$ 378,463	\$ -	\$ 569,892	\$ (162,984)	\$ 785,371
Cash basis fund balances (deficit)					
Reserved for debt service	\$ 1,060	\$ -	\$ 111,068	\$ -	\$ 112,128
Capital projects	-	-	-	(162,984)	(162,984)
Unreserved	377,403	-	458,824	-	836,227
Total cash basis fund balances	\$ 378,463	\$ -	\$ 569,892	\$ (162,984)	\$ 785,371

See notes to financial statements

City of Mitchellville, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Fiduciary Funds
As of and for the year ended June 30, 2006

	<u>Blake Trust</u>	<u>Library Memorial</u>	<u>Police Forfeiture</u>
Receipts			
Use of money & property	\$ 1,857	504	-
Miscellaneous	<u>-</u>	<u>2,258</u>	<u>-</u>
Total receipts	1,857	2,264	-
Disbursements			
Public safety	-	-	794
Culture and recreation	<u>-</u>	<u>10,414</u>	<u>-</u>
Total disbursements	-	10,414	794
Excess (deficiency) of receipts over (under) disbursements	1,857	(7,652)	(794)
Cash balance - beginning of year	59,831	37,582	794
Cash balance - end of year	<u><u>\$ 61,688</u></u>	<u><u>\$ 29,930</u></u>	<u><u>\$ 0</u></u>

City of Mitchellville, Iowa
Notes To Financial Statements
June 30, 2006

1/ Summary of Significant Accounting Policies

The City of Mitchellville is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements, and general administrative services.

A Reporting Entity

For financial reporting purposes, the City of Mitchellville has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing board and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the City's citizenry, but do not meet the criteria for a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: The Safety Coalition of Central Iowa Cities, HAZ-MAT Services, Urban Design Standards and Construction Specification Agreement, City of Colfax Mutual Fire and Police Assistance Agreement and Central Regional Iowa Drinking Water Commission.

In addition, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2006, the City paid the Metro Waste Authority \$14,141 for the Curb It Program.

B Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the tax levy and the disbursement for the benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Fund accounts for the operation and maintenance of the City's water system.

The Capital Projects Fund is utilized to account for all resources used in the acquisition of capital facilities.

C Measurement Focus and Basis of Accounting

The City of Mitchellville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operation of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

2/ Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$983,134 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest Rate Risk – the City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but maturities shall be consistent with the needs and use of the City.

3/ Bonds and Notes Payable

Annual debt service requirements for general obligation notes, lease purchase notes, and revenue bonds are as follows:

Year Ending	General Obligation Bonds		Lease Purchase Note		Revenue Bonds		Total	
	June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2007		64,000	20,567	10,768	1,335	129,000	101,550	203,768
2008		65,000	18,147	11,405	768	133,000	97,680	209,405
2009		71,000	15,697			137,000	93,690	208,000
2010		73,000	12,967			141,000	89,580	214,000
2011		74,000	10,177			145,000	85,350	219,000
2012-2016		225,227	16,802			793,000	358,830	1,018,227
2017-2022						921,000	232,350	921,000
2023-2026						986,000	85,800	986,000
Total	\$	572,227	\$ 94,357	\$ 22,173	\$ 2,103	\$ 3,385,000	\$ 1,144,830	\$ 3,979,400
								\$ 1,241,289

3/ Bonds and Notes Payable (continued)

The resolutions providing for the issuance of the revenue bonds/notes include the following provisions

- a) The bonds/notes will only be redeemed from the future earnings of each enterprise activity and the bond/note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate water and sewer revenue bond/note sinking accounts for the purpose of making the bond/note principal and interest payments when due
- c) User rates shall be established and charged to customers of the activity at least sufficient to pay the expenses of operation and maintenance and to have a balance of net revenues equal to at least 110% of the principal and interest on the bonds/notes falling due in the same year

4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$26,488, \$23,985, and \$20,690, respectively, equal to the required contributions for each year.

5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is \$11,000.

This liability has been computed based on rates of pay as of June 30, 2006

6/ Risk Management

The City of Mitchellville is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

7/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

	Transfer To				
	General	Backhoe	Railroad Crossing	Sewer Capital Project	Total
Transfer from					
Water	\$ 23	\$ 5,000	\$ -		\$ 5,023
Sewer	-	5,000		105,650	110,650
Emergency Levy	9,975	-	-		9,975
Road Use Tax	5,240	5,000	15,000	-	25,240
Cemetery Trust	1,289	-	-	-	1,289
	<u>\$ 16,527</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 105,650</u>	<u>\$ 152,177</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

8/ Related Party Transactions

The City had business transactions between the City and City officials totaling \$345 during the year ended June 30, 2006.

9/ Deficit Fund Balance

The Water Capital Project Fund had a deficit balance of \$162,984. The deficit was a result of project expenditures being made ahead of receipts. Subsequent receipts from bond proceeds will eliminate the deficit.

The Urban Service Area and Library Renovation had deficits of \$43,254 and \$856, respectively, as a result of project expenditures being made ahead of receipts. Subsequent receipts will eliminate the deficits.

10/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

11/ Construction Commitments

The City has committed to construction contracts for water supply improvements totaling approximately \$2,859,000. As of June 30, 2006, \$2,403,399 had been paid on the contracts.

12/ Urban Service Area

In October 2005, Polk County and the City entered into an agreement under Chapter 28 of the Code of Iowa to provide water and sewer extensions to customers outside the city limits. The service fees will be divided 50% to the City and 50% to a Joint Water and Sewer Trust Fund maintained by the County to be applied to construction costs within the Urban Service area.

13/ Subsequent Events

- a) On July 5, 2006, Polk County, Jasper County and the City entered into a joint public service agreement under Chapter 28E of the Code of Iowa to improve roads in the City and adjoining counties. The estimated construction costs are approximately \$396,000 and the City's share would be approximately \$300,000 which will be repaid to Polk County over 5 years
- b) On August 21, 2006, the City issued \$255,000 of general obligation capital loan notes to pay for costs of construction and equipping the City's library

City of Mitchellville, Iowa
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds Actual	Enterprise Funds Actual	Net
Receipts			
Property Taxes	\$ 499,829	\$ -	\$ 499,829
Licenses and permits	14,828	-	14,828
Use of money and property	16,155	31,989	48,144
Intergovernmental	214,152	-	214,152
Charges for Service	113,830	589,577	703,407
Miscellaneous	62,197	5,948	68,145
Total Receipts	<u>920,991</u>	<u>627,514</u>	<u>\$ 1,548,505</u>
Disbursements			
Public safety	304,815	-	304,815
Public works	274,089	-	274,089
Culture and recreation	120,699	-	120,699
Community and economic development	5,863	-	5,863
General government	92,408	-	92,408
Debt service	71,208	-	71,208
Capital Projects	43,254	2,622,644	2,665,898
Business type activities	-	455,360	455,360
Total Disbursements	<u>912,336</u>	<u>3,078,004</u>	<u>3,990,340</u>
Excess (deficiency) of receipts over (under) disbursements	<u>8,655</u>	<u>(2,450,490)</u>	<u>(2,441,835)</u>
Other financing sources, net	<u>8,523</u>	<u>2,685,969</u>	<u>2,694,492</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	<u>17,178</u>	<u>235,479</u>	<u>252,657</u>
Balance - beginning of year	711,523	549,893	1,261,416
Balance - end of year	<u>\$ 728,701</u>	<u>\$ 785,372</u>	<u>\$ 1,514,073</u>

See accompanying independent auditors' report

<u>Budgeted Amounts</u>		
<u>Original</u>	<u>Final</u>	<u>Final to Net Variance</u>
\$ 495,576	\$ 495,566	\$ 4,263
9,630	12,630	2,198
5,000	5,020	43,124
189,964	194,124	20,028
703,124	703,124	283
15,895	438,027	(369,882)
1,419,189	1,848,491	(299,986)
284,060	313,060	8,245
253,282	298,282	24,193
124,778	129,278	8,579
7,800	7,800	1,937
87,354	95,354	2,946
71,257	71,257	50
-	3,430,000	764,102
2,840,508	610,508	155,148
3,669,039	4,955,539	965,199
(2,249,850)	(3,107,048)	665,213
2,230,000	3,030,000	(335,508)
(19,850)	(77,048)	329,705
1,158,705	1,261,418	(2)
<u>\$ 1,138,855</u>	<u>\$ 1,184,370</u>	<u>\$ 329,703</u>

City of Mitchellville, Iowa
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$1,286,500. The budget amendments are reflected in the final budgeted amounts.

City of Mitchellville, Iowa
Statement of Cash Receipts, Disbursements, and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue					
	Emergency Levy	Backhoe Fund	Special Assessment	Railroad Crossing Repair	DARE	Park Fund
Receipts						
Property tax	\$ 9,975	\$ -	\$ 693	\$ -	\$ -	\$ -
Use of money and property	-	540	506	390	-	106
Miscellaneous	-	-	-	-	-	-
Total Receipts	9,975	540	1,199	390	-	106
Disbursements						
Operating						
Public Works	\$ -	\$ 43,215	\$ -	\$ -	\$ -	\$ -
Culture and Recreation	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
Total Disbursements	-	43,215	-	-	-	-
Excess (deficiency) of receipts over (under) disbursements	9,975	(42,675)	1,199	390	-	106
Other financing sources (uses)						
Operating transfers in	\$ -	\$ 15,000	\$ -	\$ 15,000	\$ -	\$ -
Operating transfers out	(9,975)	-	-	-	-	-
Total other financing sources (uses)	(9,975)	15,000	-	15,000	-	-
Net change in cash balances	0	(27,675)	1,199	15,390	-	106
Cash balance - beginning of year	-	30,152	20,351	-	45	2,970
Cash balance - end of year	\$ 0	\$ 2,477	\$ 21,550	\$ 15,390	\$ 45	\$ 3,076
Cash basis fund balances						
Unreserved						
Special revenue funds	\$ 0	\$ 2,477	\$ 21,550	\$ 15,390	\$ 45	\$ 3,076
Capital project funds	-	-	-	-	-	-
Permanent fund	-	-	-	-	-	-
Total cash basis fund balances	\$ 0	\$ 2,477	\$ 21,550	\$ 15,390	\$ 45	\$ 3,076

See accompanying independent auditors' report.

Schedule 1

Capital Projects		Permanent	
Urban Service Area	Library Renovation	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ -	\$ 10,668
-	-	1,033	2,575
-	-	600	600
-	-	1,633	13,843
<hr/>			
\$ -	\$ -	\$ -	\$ 43,215
-	856	-	856
43,254	-	-	43,254
43,254	856	-	87,325
<hr/>			
(43,254)	(856)	1,633	(73,482)
<hr/>			
\$ -	\$ -	\$ -	\$ 30,000
-	-	(1,289)	(11,264)
		(1,289)	18,736
<hr/>			
(43,254)	(856)	345	(54,745)
<hr/>			
-	-	31,763	85,281
\$ (43,254)	\$ (856)	\$ 32,108	\$ 30,536
<hr/>			
<hr/>			
\$ -	\$ -	\$ -	\$ 42,538
(43,254)	(856)	-	(44,110)
-	-	32,108	32,108
\$ (43,254)	\$ (856)	\$ 32,108	\$ 30,536
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City of Mitchellville, Iowa
Schedule of Indebtedness
For the year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Notes			
Sewer Improvement	December, 1995	4.70%	\$ 250,000
Community/Senior Center	February, 1996	4.70%	100,000
Storm Sewer Improvement	March, 1997	5.00%	375,000
Water Treatment Plant	June, 2006	3.00%	1,050,000
Totals			
Lease Purchase Note			
Ambulance (secured by a lien on the ambulance)	July, 1997	6.04%	\$ 88,910
Revenue Bonds/Notes			
Sewer Revenue Capital Notes	May, 2004	3.00%	\$ 1,200,000
Water Revenue Bonds	September, 2005	3.00%	2,230,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 25,000	\$ -	\$ 25,000	\$ -	\$ 588
10,000	-	10,000	-	470
195,000	-	25,000	170,000	9,750
-	402,227	-	402,227	-
<u>\$ 230,000</u>	<u>\$ 402,227</u>	<u>\$ 60,000</u>	<u>\$ 572,227</u>	<u>\$ 10,808</u>
<u>\$ 32,327</u>	<u>\$ -</u>	<u>\$ 10,150</u>	<u>\$ 22,177</u>	<u>\$ 1,953</u>
\$ 1,031,332	\$ 168,668	\$ 45,000	\$ 1,155,000	\$ 34,471
-	2,230,000	-	2,230,000	20,068
<u>\$ 1,031,332</u>	<u>\$ 2,398,668</u>	<u>\$ 45,000</u>	<u>\$ 3,385,000</u>	<u>\$ 54,539</u>

City of Mitchellville, Iowa
Bond and Note Maturities
June 30, 2006

General Obligation Bonds and Notes

Year	Storm Sewer		Water Capital Notes		Total
	Issued March 1, 1997		Issued June 1, 2006		
	Interest	Amount	Interest	Amount	
2007	5.00	25,000	3.00	39,000	64,000
2008	5.00	25,000	3.00	40,000	65,000
2009	5.00	30,000	3.00	41,000	71,000
2010	5.00	30,000	3.00	43,000	73,000
2011	5.00	30,000	3.00	44,000	74,000
2012	5.00	30,000	3.00	45,000	75,000
2013			3.00	47,000	47,000
2014			3.00	48,000	48,000
2015			3.00	49,000	49,000
2016			3.00	6,227	6,227
Totals		<u>\$ 170,000</u>		<u>\$ 402,227</u>	<u>\$ 572,227</u>

Year Ending June 30,	Sewer Revenue Capital Notes		Water Revenue Bonds		Total	Lease Purchase Note Ambulance	
	Issued May 17, 2004		Issued September 21, 2005			Issued July 30, 1997	
	Interest Rates (%)	Amount	Interest Rates (%)	Amount		Interest Rates (%)	Amount
2007	3 00	46,000	3 00	83,000	129,000	6 04	10,768
2008	3 00	47,000	3 00	86,000	133,000	6 04	11,409
2009	3.00	49,000	3 00	88,000	137,000		
2010	3 00	50,000	3 00	91,000	141,000		
2011	3 00	52,000	3 00	93,000	145,000		
2012	3.00	53,000	3 00	96,000	149,000		
2013	3.00	55,000	3 00	99,000	154,000		
2014	3 00	57,000	3 00	102,000	159,000		
2015	3.00	58,000	3 00	105,000	163,000		
2016	3.00	60,000	3 00	108,000	168,000		
2017	3 00	62,000	3 00	112,000	174,000		
2018	3 00	64,000	3 00	115,000	179,000		
2019	3.00	66,000	3 00	118,000	184,000		
2020	3 00	67,000	3 00	122,000	189,000		
2021	3 00	69,000	3 00	126,000	195,000		
2022	3 00	72,000	3 00	129,000	201,000		
2023	3 00	74,000	3 00	133,000	207,000		
2024		76,000	3 00	137,000	213,000		
2025		78,000	3 00	141,000	219,000		
2026			3 00	146,000	146,000		
Totals		\$ 1,155,000		\$ 2,230,000	\$ 3,385,000		\$ 22,177

See accompanying independent auditors' report

City of Mitchellville, Iowa
Schedule of Receipts by Source and Disbursements by Function
All Government Funds
As of and for the year ended June 30, 2006

	2006	2005	2004
Receipts			
Property taxes	\$ 499,829	\$ 492,370	\$ 484,245
Licenses and permits	14,828	8,525	10,778
Use of money and property	16,155	7,166	9,707
Intergovernmental	214,152	185,486	528,192
Charges for service	113,830	113,646	120,227
Miscellaneous	62,197	35,337	16,055
Total	<u>\$ 920,991</u>	<u>\$ 842,530</u>	<u>\$ 1,169,204</u>
Disbursements			
Operating			
Public safety	\$ 304,815	\$ 268,519	\$ 262,331
Public works	274,089	224,577	199,840
Culture and recreation	120,699	120,433	111,260
Community and economic development	5,863	5,857	12,061
General government	92,410	90,115	66,278
Debt service	71,208	73,702	71,348
Capital projects	43,254	-	1,152,380
Total	<u>\$ 912,338</u>	<u>\$ 783,203</u>	<u>\$ 1,875,498</u>

See accompanying independent auditors' report

City of Mitchellville, Iowa
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Grantor/Program	CFDA Number	Program Expenditures
Indirect		
U.S. Environmental Protection Agency		
Iowa Department of Natural Resources		
Capitalization Grants for Clean Water State Revolving Funds	66 458	\$ 1,667
Capitalization Grants for Drinking Water State Revolving Funds	66 468	2,061,690
National Highway Traffic Safety Administration		
Department of Public Safety, Governor's Traffic Safety Bureau		
Incentive Grants for Use of Seat Belts	20 604	1,172
		<u>\$2,064,529</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report

POLLARD AND COMPANY P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council

We have audited the financial statements of the City of Mitchellville, Iowa as of and for the year ended June 30, 2006, and have issued our report as dated below. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mitchellville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe all of the reportable conditions described in Part II of the Schedule of Findings are material weaknesses. All prior year reportable conditions have been resolved with the exceptions of II-A-06.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Mitchellville and other parties to whom the City of Mitchellville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

February 16, 2007

Pollard and Company P.C.

POLLARD AND COMPANY P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Mitchellville, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Mitchellville complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Mitchellville is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions that are also considered material weaknesses. We believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City and other parties to whom the City may report, including federal awarding agencies, and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

February 16, 2007

Rollins and Company P.C.

CITY OF MITCHELLVILLE, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

PART I: Summary of the Independent Auditors' Results

- a. An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- e. An unqualified opinion was issued on compliance with requirements applicable to the major program.
- f. The audit did not disclose audit findings which are required to be reported in accordance with Office Management and Budget Circular A-133, Section .510(a).
- g. The major program was CFDA Number 66 468 Capitalization Grants for Drinking Water State Revolving Funds.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The City of Mitchellville did not qualify as a low-risk auditee.

PART II Findings Related to the Financial Statements

REPORTABLE CONDITIONS

II-A-06 Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The posting of the cash receipts to the general ledger, reconciliations and securities control and custody are all done by the same person.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response

With the addition of the City Manager, the City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion

Response accepted.

PART III Findings and Questioned Costs for Federal Awards

III-A-06 Segregation of Duties Over Federal Receipts

The City did not properly segregate federal cash receipts, deposits and postings to the general ledger. See item II-A-06.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response

With the addition of the City Manager, the City will attempt to segregate duties to the extent possible to provide additional control through review of financial transactions and reports and segregation of duties.

Conclusion

Response accepted

PART IV Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget

Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.

IV-B-06 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-06 Business Transactions

The business transactions between the City and Peggy Olson, Council Member and Caterer, totaled \$345.00. In accordance with Chapter 362 5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

IV-E-06 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions.

PART IV Other Findings Related to Statutory Reporting (continued)

IV-F-06 Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-06 Deposits and Investments

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted

IV-H-06 Financial Condition

As further explained in Note 8 of the financial statements, two Capital Project Funds had deficit balances at June 30, 2006

Recommendation

The City should investigate alternatives to eliminate the deficit in order to return the fund to a sound financial position

Response

Note 8 of the financial statements indicates the City's plans to eliminate the deficit

Conclusion

Response accepted.

IV-I-06 Authorized Signers

Upon review of authorized signers on the City's bank accounts, certain accounts included the former City Clerk registered as an authorized signer

Recommendation

The City should update the necessary signature cards to include only current employees and officials as authorized signers on the City's bank accounts

Response

The cards will be updated

Conclusion

Response accepted